



PUGET
SOUND
ENERGY

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

November 28, 2005

Ms. Carole Washburn, Secretary
Washington Utilities & Transportation Commission
P.O. Box 47250
Olympia, WA 98504

Dear Ms. Washburn:

**Subject: Docket UG-920781 (WNG)
Docket UE-911476 (PSP&L)
Report Environmental Report for the quarter ending
September 30, 2005**

FORMER WNG SITES

A. Tacoma Gas Company Site (Upland Source Control)

PSE is working with WDOE to establish the scope and schedule for developing remedial investigation/feasibility study (RI/FS) RI/FS documents for addressing portions of the site under the I-705 overpass. Periodic groundwater monitoring continues.

Remedial costs incurred through 9/30/05 \$753,881.64

B. Thea Foss Waterway

Monitoring of the utilities' completed remedy began in April 2004, as required by the EPA approved Operation Maintenance and Monitoring Plan (OMMP). During the fall of 2004, recontamination of the Utilities' Work Area was discovered. The recontamination source was identified to be dredging completed by the City of Tacoma. The Utilities are working with City of Tacoma, EPA and WDOE to address the "dredging" recontamination issue. Any necessary remedial work would be conducted by the City during the upcoming construction season (now through February 2006).

Sampling of the sediment was performed in May 2005 in accordance with the OMMP. Preliminary analysis of the May 05 data indicates that stormwater discharges are recontaminating waterway bottom sediment.

Remedial costs incurred through 9/30/05 \$2,917,880.71

C. Everett, Washington

PSE continues regular monitoring of the results of the remediation already performed. The remedy chosen for this site was a containment wall with monitoring wells at both ends.

Remedial costs incurred through 9/30/05 \$1,248,269.33

D. Chehalis, Washington - Gas Site

Work has continued on developing a remedial plan resulting from the discovery of elevated concentrations of contamination onsite. Completion of studies (RI/FS) and remedial design are planned for the remainder of 2005 and 2006.

Remedial costs incurred through 9/30/05 \$2,468,178.79

E. Gas Works Park

No change. The only ongoing activity is the monitoring of the remediation. This is the responsibility of the City of Seattle.

Remedial costs incurred through 9/30/05 \$2,574,095.49

F. 5th and Jackson

Union Station Associates and PSE settled the pending litigation in December 2002. We are still working with our insurance carriers to recover costs associated with the defense and settlement of this litigation.

Total investigative and settlement costs through 9/30/05 \$3,579,098.24

G. Quendall Terminals

There has been virtually no communication with PSE regarding this site for a few years. Recent newspaper articles indicate that EPA has taken over the site lead (from Ecology) and the site may be listed as a "Superfund" by the Federal Government. PSE has attempted to monitor activities, and we continue to deny liability. However, given the current estimate of costs, allegations by other parties, and our ongoing investigation, it remains difficult to estimate project costs.

H. Lake Union

PSE is conducting a remedial investigation/feasibility study (RI/FS) under the Agreed Order (AO) between WDOE and PSE and the City of Seattle executed on March 18, 2005. The AO calls for PSE and the City to complete work in separate eastern and western study areas offshore of Gas Works Park. PSE has completed the field investigation. WDOE recently approved a site-wide cleanup level and the cleanup boundary for PSE's eastern study area. The RI/FS report will be submitted to WDOE in the first quarter of 2006.

Remedial costs incurred through 9/30/05 \$4,388,071.90

I. Tacoma Tar Pits

The pump and treat system is operating and PSE continues to monitor system performance. Maintenance of site facilities (e.g., mowing of covered stabilized waste pile) and monitoring of ground water quality continues.

Remedial costs incurred through 9/30/05 \$36,949,892.43

FORMER PUGET POWER SITES

A. Northwest Transformer, Mission Pole

PSE monitors this site, but it has very little additional activity following the completed remediation.

B. Puyallup Garage

PSE expects to perform remediation at this site in the future, but is presently monitoring the property only. Contaminated soil remains beneath the former garage building.

C. Underground Storage Tanks Status

Please see the attached spreadsheet. This provides a summary of our ongoing efforts associated with the investigation, remediation, and/or removal of underground storage tanks.

D. Buckley Headworks Site

Phase 1

Remediation of the first area of investigation was completed in 2002 in accordance with MTCA and WDOE has provided a No Further Action Letter. This phase of the project is completed and PSE continues to perform groundwater monitoring.

Phase 2

PSE is preparing a remedial action plan for the cleanup of three other areas of contamination noted during our initial remediation work. Additionally, the groundwater monitoring program at the site has been expanded to include these areas.

Remedial costs incurred through 9/30/05

\$83,211.93

E. Duwamish Waterway (Potential New Site)

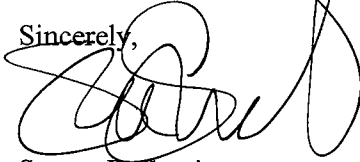
While PSE has not been formally designated as a PLP for this site in south Seattle, allegations have been made by other parties that PSE may have contributed to contamination in this Waterway as a result of the operations of a steam plant in the Georgetown area. It remains premature to determine either the merit of these claims or the amount of any formal claim that may be brought against PSE. Further, there has been virtually no communication from the other parties for over a year. Consequently, we continue to just monitor this site.

This list represents current major sites PSE is investigating, monitoring, or remediating. With respect to insurance litigation, PSE executed a settlement agreement with Lloyds of London on September 28, 2005, representing the final settlement of the PSE vs. Alba litigation and the end of over twelve years of litigation. The sites covered by this litigation included the following:

- Gas Works Park
- Lake Union
- 5th and Jackson (Lloyds only)
- Chehalis
- Everett
- Thea Foss Waterway
- 22d and A Street MGP site (Tacoma)

The settlement amount that will be paid to PSE by Lloyds is \$5.5 million. There should be no contingencies (unless there are insolvencies with certain of the Lloyds companies between the time the agreement was signed and the time that PSE is paid, but this is an unlikely scenario) with respect to the amounts paid to PSE and payment.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Secrist', written over the word 'Sincerely,'.

Steven R. Secrist
Director – Environmental Services

cc: Jim Eldredge
Mike Main
Karl Karzmar
Bert Valdman
Chuck Gordon
David Brenner
Mike Stranik
Jennifer O'Connor
Mark Raker

PUGET SOUND ENERGY UST REMEDIAL COST ESTIMATES (Page 1 of 2)
(updated 9/28/05)

PSE Facility/Location		Proposed Remedial Action	Estimated Cost of Proposed Remedial Action (\$)
Baker River Lower Concrete, WA	2,500 gal. Gas and Diesel USTs	None	0
Baker River Upper Concrete, WA	1,000 gal. Gas and Diesel USTs	None	0
Bellingham Service Center Bellingham, WA	10,000 gal. Gas and Diesel USTs	None	0
Electron Forebay Orting, WA	550 gal. Gas and Diesel USTs	None	0
Electron Power House Orting, WA	Two USTs and contaminated soil successfully were removed in July 2005. Ground water assessment to be completed.	None	30,000 (assume gw has not been impacted; one year of sampling)
Factoria Service Center Bellevue, WA	10,000 gal. Gas and Diesel USTs	None	0
Kittitas Service Center Thorp, WA	5,000 gal. Gas and Diesel USTs	None	0
Olympia Service Center (Fuel Island) Olympia, WA	10,000 gal. Gas & Diesel USTs Gas spill Nov. '99	A. Natural Attenuation and GW Monitoring (Existing Wells) B. Soil excavation when Fuel Island is removed	A. 15,000 B. 50,000
Olympia Service Center (Post-EPRI Diesel Remediation) Olympia, WA	Diesel UST removed. Contaminated soil and ground water remains after EPRI air sparging program.	A. Natural Attenuation and GW Monitoring (Existing Wells) B. Soil excavation when building(s) is removed	A. 5,000 B. 100,000
Poulsbo Service Center Poulsbo, WA	6,000 gal. Gas & Diesel USTs	A. Natural Attenuation B. Soil excavation when building is removed.	A. 0 B. 10,000
Port Townsend Service Center Port Townsend, WA	6,000 gal. Gas & Diesel USTs	None	0
Skagit Service Center Burlington, WA	12,000 gal. Gas & Diesel USTs	None	0
Tacoma Office Tacoma, WA	10,000 gal. Gas UST removed July 2005	Soil excavation when tank is removed in 2005	0
Crystal Mtn. Gen. Greenwood, WA	Three USTs	None	0
Green Mtn. Micro Wave Bremerton, WA	One UST	None	0

Notes shown on Page 2 of 2

PUGET SOUND ENERGY UST REMEDIAL COST ESTIMATES (Page 2 of 2)

PSE Facility/Location	Site Status	Proposed Remedial Action	Estimated Cost of Proposed Remedial Action (\$)
Rattlesnake Mtn. Micro Wave Issaquah, WA	One UST	None	0
Bremerton Service Center Bremerton, WA	Three USTs and majority of contaminated soil removed in 1999. Contaminated soil remains at property boundary and beneath building	A. Well abandonment B. Soil excavation when building(s) is removed	A. 2,000 B. 50,000
Whidbey Service Center Oak Harbor, WA	USTs and majority of contaminated soil removed in 1999. Small volume of contaminated soil remains beneath building	A. VCP Program and GW Monitoring (New Wells) B. Soil excavation when building(s) is removed	A. 30,000 B. 15,000
Tenino Service Center Tenino, WA	USTs and majority of contaminated soil removed in 1991. Small volume of contaminated soil remains beneath building	A. Natural Attenuation and GW Monitoring (Existing Wells) B. Soil excavation when building(s) is removed	A. 15,000 B. 75,000
North Operating Base Seattle, WA	USTs removed in 1999. Diesel-contaminated soil remains beneath fuel island.	A. Site Characterization and GW Monitoring (New Wells) B. Soil excavation when fuel island is removed	A. 20,000 B. 50,000

Cost Estimate Totals:

A. Ground Water Monitoring, Site Characterization, Natural Attenuation Only (No Remediation) **\$117,000**
 B. Remediation Only (No Monitoring) **\$350,000**
 A. & B. Ground Water Monitoring Followed by Remediation **\$467,000**

Notes

- ¹ Remedial costs do not include demolition of facilities and buildings to access contaminated soil.
- ² Ground water monitoring estimate assumes three years of monitoring/sampling.
- ³ All estimated costs should be considered conceptual. They are not based on a detailed scope of service or design.

**PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY ELECTRIC
SEPTEMBER 30, 2005**

September 2000 - forward SAP ORDER SAP ACCOUNT	SITE DESCRIPTION	6/30/2005 Account Balance (a)	Quarterly Activity (b)	9/30/2005 Account Balance (c) = (a) + (b)	Actual Costs Through 9/30/05 (d)	Future Cost Estimates (e)	Total Cost Estimates (f) = (d) + (e)	Insurance Proceeds Through 9/30/05 (g)	Accum Amort Through 3rd Qtr 9/30/2005 Dr. 40700001 (h)	Balance 9/30/2005 Closing (i) = (g)
18230007	18232241	Buckley Phase 1-Wood Treatment Area Env Remed Cost (Amortization began 1/1/04)	814,605.72	(113,595.99) (F)	701,009.73	2,304,499.59		(1,226,023.08) (D)	(377,466.78) (E)	701,009.73
18230009	18232221 18232251	Env Rem - Buckley-White River Phase II Future Est Cost Buckley Phase II -Burn Pile & Wood Debris Env Rem Cost SUBTOTAL BUCKLEY HEADWORKS SITE	1,420,759.60 79,240.40 0.00	(3,971.53) 3,971.53 0.00	1,416,788.07 83,211.93 1,500,000.00	1,416,788.07 83,211.93 1,416,788.07	1,500,000.00 1,500,000.00	0.00	0.00	1,416,788.07 83,211.93 1,500,000.00
18230021	18232271	Env Rem - Duwamish River Site (former Georgetown)	56,800.68		56,800.68 (A)					56,800.68
18230022	18232281	Env Rem - Olympia SVC Capacitor Site (Amort began 11/1/04)	369,958.12	(21,343.74) (C)	348,614.38	426,874.76			(76,260.36)	348,614.40
18230011	18233051	Env Rem - UG Tank - Baker Lodge (Amortization began 6/1/03)	7,841.36	(672.12) (C)	7,169.24	13,442.34			(6,273.10)	7,169.24
18230031	18233061	Env Rem - UG Tank - Poulsbo Services Center (future costs)	10,000.00		10,000.00	10,000.00	10,000.00			10,000.00
22840011	18233071	Env Rem - UG Tank - Kent Fleet (Amortization began 5/1/01)	14,662.39	(4,398.72) (C)	10,263.67	87,974.39			(77,710.72)	10,263.67
22840031	22840021	NWT - Mission Pole Def Site	(75,000.00)		(75,000.00)	75,000.00	75,000.00 (B)	(75,000.00) (B)		(75,000.00)
22840041	22840031	Buckley White River Phase II Def Site	(1,420,759.60)	3,971.53	(1,416,788.07)	129,471.05	150,000.00 (B)	(150,000.00) (B)		(1,416,788.07)
22840042	22840041	Olympia UST Def Site	(129,471.05)		(129,471.05)	20,528.95	150,000.00 (B)	(150,000.00) (B)		(129,471.05)
22840051	22840041	Bremerton UST Def Site	(3,273.81)	625.26	(2,648.55)	47,351.45	50,000.00 (B)	(50,000.00) (B)		(2,648.55)
22840061	22840051	Whidbey Island UST Def Site	(15,000.00)		(15,000.00)	15,000.00	15,000.00 (B)	(15,000.00) (B)		(15,000.00)
22840081	22840061	Tenino UST Def Site	(52,471.63)		(52,471.63)	22,528.37	75,000.00 (B)	(75,000.00) (B)		(52,471.63)
22840111	22840081	Puyallup Garage expensed Site	(337,416.92)		(337,416.92)	337,416.92	350,000.00 (B)	(350,000.00) (B)		(337,416.92)
22841001	22840111	Poulsbo Service Center	(10,000.00)		(10,000.00)	12,583.08				(10,000.00)
		AETNA II Lawsuit unallocated proceeds	(1,581,763.38)		(1,581,763.38)			(1,581,763.38)		(1,581,763.38)
		Totals	(851,288.12)	(135,413.78)	(986,701.90)	3,075,795.54	2,225,000.00	(3,522,786.48)	(539,710.96)	(986,701.90)

(A) Per Eldredge discussion with Steve Secrist on July 7, 2005, remediation of the Duwamish site is taking place at this time. PSE's obligations, if any, with regard to this site are uncertain at this time.
(B) All future cost estimate for this site has been received in the form of insurance proceeds.
(C) Amount is equal to the quarterly amortization.
(D) Includes insurance payment in the PSE v London Market Insurers Lawsuit ("AETNA III") in the amount of \$12,480.50 dated 6/30/2005 and \$72,765.55 dated 7/21/2005.
(E) Amortization adjusted resulting from insurance proceeds discussed at (D).
(F) Amount is equal to quarterly amortization and insurance payments discussed at (D).

**PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY GAS
September 30, 2005**

September 1998 - forward SAP ORDER SAP ACCOUNT	Site Description	6/30/2005		Activity	9/30/2005		Env Services Project Cost Estimates	Remediation Cost Estimates		Amortization Through 9/30/2005 Dr. 40700002	Balance 9/30/2005 Closing
		Account Balance			Account Balance	Remaining 18608022 18236022 22840002					
FORMER MANUFACTURED GAS SITES:											
IACOMA TIDE FLATS (IACOMA TAR PITS, THCSS, RIVER STREET)											
18601203	18608142	Legal Costs	9,351,936.58	-	9,351,936.58	-	-	-	-	-	9,351,936.58
18601102	18608112	Remediation Costs through June 1999	34,826,945.69	(c)	34,826,945.69	-	-	-	-	-	34,826,945.69
18601102	18608112	Remediation Costs post-June 1999	2,065,621.81	(c)	2,065,621.81	57,324.93	2,450,000.00	327,053.26	-	-	2,122,946.74
	18608152	Internal Costs pre-1997	209,796.52		209,796.52	57,324.93	2,450,000.00	327,053.26	-	-	209,796.52
		SUBTOTAL Tacoma Tide Flats	46,454,300.60		46,511,625.53	114,374.86	4,900,000.00	654,106.52	-	-	46,511,625.53
18602102	18608212	EVERETT	1,244,045.58		1,244,045.58	4,223.75	2,700,000.00	1,451,730.67	-	-	1,248,269.33
18602203	18608242	Legal Costs	8,717.50		8,717.50	-	-	-	-	-	8,717.50
		SUBTOTAL Everett	1,252,763.08		1,252,763.08	4,223.75	2,700,000.00	1,451,730.67	-	-	1,256,986.83
18603102	18608312	CHEHALIS	2,415,105.24		2,468,178.79	53,073.55	3,300,000.00	831,821.21	-	-	2,468,178.79
18604203	18608442	GAS WORKS - SEATTLE	856,121.11		856,121.11	-	-	-	-	-	856,121.11
18604102	18608412	Remediation Costs	2,573,728.54		2,573,728.54	-	3,200,000.00	626,271.46	-	-	2,573,728.54
	18608452	Internal Costs - pre-1997	366.95		366.95	-	-	-	-	-	366.95
		SUBTOTAL Gas Works - Seattle	3,430,216.60		3,430,216.60	-	3,200,000.00	626,271.46	-	-	3,430,216.60
18605203	18608542	WSDOT FEDERAL/STATE	379,591.40		379,591.40	-	-	-	-	-	379,591.40
18605102	18608512	Remediation Costs	-		-	-	-	-	-	-	-
		SUB TOTAL	379,591.40		379,591.40	-	-	-	-	-	379,591.40
18606102	18608612	WSDOT UPLAND (Aka 22nd & A Street, Tacoma Gas Company Site)	720,154.99		753,881.64	33,726.65	1,100,000.00	346,118.36	-	-	753,881.64
18606203	18608642	Remediation costs	15,888.20		15,888.20	-	-	-	-	-	15,888.20
		Legal Costs	735,043.19		769,769.84	33,726.65	1,100,000.00	346,118.36	-	-	769,769.84
		SUBTOTAL	735,043.19		769,769.84	33,726.65	1,100,000.00	346,118.36	-	-	769,769.84
18607102	18608712	WSDOT THEA FOSS	2,880,597.50		2,917,880.71	37,283.21	6,500,000.00	3,582,119.29	-	-	2,917,880.71
18607203	18608742	Remediation costs	2,860,842.82		2,902,020.17	41,177.35	6,500,000.00	3,582,119.29	-	-	2,902,020.17
		Legal costs	5,741,440.32		5,819,900.88	78,460.56	6,500,000.00	3,582,119.29	-	-	5,819,900.88
		SUBTOTAL	5,741,440.32		5,819,900.88	78,460.56	6,500,000.00	3,582,119.29	-	-	5,819,900.88
18608102	18608812	TULALIP	985.00		985.00	-	-	-	-	-	985.00
		Remediation costs	-		-	-	-	-	-	-	-
18609202	18608942	OMNIBUS INSURANCE LITIGATION (9 MFG. GAS SITES)	2,421,948.46		2,971,625.19	549,676.73	-	-	-	-	2,971,625.19
		Legal costs	-		-	-	-	-	-	-	-
18610102	18609112	SIH & JACKSON	2,001,000.00		2,001,000.00	-	-	-	-	-	2,001,000.00
18610104	18609132	Remediation costs	1,578,098.24		1,578,098.24	-	-	-	-	-	1,578,098.24
18610103	18609122	Legal costs	(1,413,413.82)		(1,413,413.82)	-	-	-	-	-	(1,413,413.82)
18610105	18609142	Legal cost recoveries	(1,075,000.00)		(1,075,000.00)	-	-	-	-	-	(1,075,000.00)
		Indemnity Insurance Proceeds	1,090,684.42		1,090,684.42	-	-	-	-	-	1,090,684.42
		SUBTOTAL	1,090,684.42		1,090,684.42	-	-	-	-	-	1,090,684.42

**PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY GAS
September 30, 2005**

September 1988 - forward SAP ORDER SAP ACCOUNT	Site Description	6/30/2005		Activity	9/30/2005		Env Services Project Cost Estimates		Remaining		Amortization Through 9/30/2005 Dr. 40700002	Balance 9/30/2005 Closing
		Account Balance	Account Balance		Account Balance	Cost Estimates 9/30/2005	18608022 18236022 22840002	22840002				
18611102	MERCER STREET Remediation costs	66,942.15	-	-	66,942.15	-	-	-	-	-	-	66,942.15
18612102	QUENDALL TERMINALS Remediation costs	-	-	-	-	-	1,000,000.00	-	-	-	-	-
18609302	Legal Costs	216.00	-	-	216.00	-	-	-	-	-	-	216.00
	SUBTOTAL	216.00	-	-	216.00	-	1,000,000.00	-	-	-	-	216.00
18614102	LAKE UNION Remediation costs	3,880,113.83	507,958.07	507,958.07	4,388,071.90	25,000,000.00	25,000,000.00	20,811,928.10	-	-	-	4,388,071.90
18614202	Legal Costs	93,616.89	19,459.42	19,459.42	113,076.31	-	-	-	-	-	-	113,076.31
	SUBTOTAL	3,973,730.72	527,417.49	527,417.49	4,501,148.21	25,000,000.00	25,000,000.00	20,811,928.10	-	-	-	4,501,148.21
18608022	Estimated Future Costs	29,470,632.51	(693,590.16)	(693,590.16)	28,777,042.35	-	-	-	-	-	-	28,777,042.35 (a)
18608062	Insurance and Third Party Inception-to-Date Recoveries	(58,177,788.28)	(2,057,355.87)	(2,057,355.87)	(60,235,124.15)	-	-	-	-	-	-	(60,235,124.15)
	TOTAL - FORMER MANUFACTURED GAS SITES	\$ 39,256,841.41	\$ (1,447,042.37)	\$ (1,447,042.37)	\$ 37,809,799.04	\$ 45,250,000.00	\$ 45,250,000.00	\$ 26,777,842.35 (a)	\$ -	\$ -	\$ -	\$ 37,809,799.04
18230206	GAS UNDERGROUND STORAGE TANKS AND OTHER SITES	435,966.10	4,480.96	4,480.96	440,447.06	450,000.00	450,000.00	9,552.94	-	-	-	440,447.06
18236612	CROSSROADS OPERATING BASE	126,704.89	10,210.65	10,210.65	136,915.54	50,000.00	50,000.00	50,000.00	-	-	-	136,915.54
18230210	SWARR STATION	-	-	-	-	-	-	-	-	-	-	-
18237112	ESTIMATED FUTURE COSTS	562,670.99	14,691.61	14,691.61	577,362.60	500,000.00	500,000.00	35,362.60	-	-	-	539,999.99
18236022	ESTIMATED FUTURE INSURANCE RECOVERIES	-	-	-	-	-	-	-	-	-	-	-
18236032	TOTAL - GAS UNDERGROUND STORAGE TANKS	\$ 562,670.99	\$ 14,691.61	\$ 14,691.61	\$ 577,362.60	\$ 500,000.00	\$ 500,000.00	\$ 35,362.60	\$ -	\$ -	\$ -	\$ 539,999.99
	TOTAL - GAS STORAGE TANKS AND MANUFACTURED GAS SITES	\$ 39,819,512.40	\$ (1,432,350.76)	\$ (1,432,350.76)	\$ 38,387,161.64	\$ 457,500,000.00	\$ 457,500,000.00	\$ 28,836,195.29 (b)	\$ -	\$ -	\$ -	\$ 38,446,744.98

(a) Represents Gas Sites in Account 18608022 and 18608062.
 (b) Represents Gas Sites in Account 18236612 and 18237112.
 (c) Includes Recoveries from Insurance. This figure is in Part 1000, 1000000 and 18608012.
 (d) Represents Gas Sites in Account 18236022 and 18236032.